

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1278-01  
Bill No.: HB 480  
Subject: Revenue Dept.; Taxation and Revenue - General, Income, Sales and Use  
Type: Original  
Date: February 12, 2001

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
General Revenue	\$0	(\$485,833)	\$817,067
Local Revenue Replacement Fund	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> State Funds*</b>	<b>\$0</b>	<b>(\$485,833)</b>	<b>\$817,067</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
<b>Local Government*</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$12,173,000)</b>

\*This proposal is permissive. Voter approval would be required before fiscal impact would be realized.

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

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## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation exempts food from local sales tax and replaces the lost revenues by lowering the limit of deduction on the federal tax. It distributes the increased revenue from the reduction in federal income tax to the cities and counties to cover the lost revenue from the food exemption. The only tax on food items will be 1.225% state tax rate.

ADMINISTRATIVE IMPACT: DOR will need the following: Business Tax will need 1 Tax Processing Tech I to assist in the distribution process and to continually work with the cities and counties. Initial mailing to 20,000 accounts will be done by DOR to advise of the change in the Food exemption. Personal Tax will have an increase number of returns the first year for financial corrections and will need 1 Tax Processing Tech I for every 30,000 additional errors and 1 Tax Processing Tech 1 for every additional 3,000 pieces of correspondence generated by this legislation. Mainframe systems (MITS and MINITS) will need to be modify to handle the changes in this legislation. Programming costs of MITS will be \$99,677 and MINITS \$26,774.

**Oversight** assumes DOR will require the Tax Processing Technicians starting in FY 2004 and that additional floor space will not be necessary. Oversight also assumes the programming changes would be started and completed in FY 2004.

Officials from the **Office of Administration, Budget and Planning (BAP)** estimated the revenue impact of both the food exemption from sales tax and the increased income tax revenue from the decrease in federal income tax deduction. The reduction in sales tax revenue is estimated to be \$52.3 million in FY 2002, \$126.9 million in FY 2003, and \$129.5 million in FY 2004, based on an average local sales tax rate of 1.5 percent. The increase in income tax revenue from the decreased federal income tax deduction is estimated to increase revenue to the state by \$0 in FY 2002, \$109.9 in FY 2003, and \$118.4 million in FY 2004.

**Oversight** assumes, pending voter approval in November, 2002, the effective date of the sales tax exemption for food on local sales taxes will be July 1, 2003 (FY 2004). The corresponding effective date of the decrease in federal income tax deduction would occur for all tax years beginning on or after January 1, 2003, which would be realized by the state on returns filed starting January 1, 2004 (FY 2004).

Officials from the **State Tax Commission (TAX)** assume this legislation will have no fiscal impact on its agency.

In a similar proposal, officials from the **State Treasurer's Office (STO)** and the **Department of Higher Education (CBH)** assumed this legislation will not fiscally impact their agencies.

ASSUMPTION (continued)

Officials from the **Department of Elementary and Secondary Education (DES)** state under this proposal, the following issues would be put to a vote of the people in November, 2001:

- (1) Limit the amount of federal income taxes paid which may be taken as a deduction for purposes of computing Missouri state income tax liability. This will increase income tax liabilities for some Missouri taxpayers;
- (2) Exempt sales of food from local option sales tax;
- (3) Create the "Local Revenue Replacement Fund". Additional revenue attributable to the limitation on federal deductibility is to be deposited into the Local Revenue Replacement Fund, less 2% for administration purposes. Revenues lost by local political subdivisions from the exemption on food sales are to be replaced by revenues from the Local Revenue Replacement Fund.

DES assumes this proposal will have no fiscal impact on their agency.

Officials from the **Office of the Secretary of State (SOS)** assume this legislation could require printing additional pages in the *Missouri Register* and the *Code of State Regulations*. These publications are printed by the State Printing Center, which may be impacted by this proposal.

SOS states this bill eliminates the local sales and use tax on food and replaces lost revenue by reducing state income tax deduction for individuals for federal income taxes. DOR shall promulgate rules to implement the bill. Based on experience with other divisions, the rules, regulations and forms by DOR could require as many as approximately 24 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is \$23.00. The estimated cost of a page in the *Code of State Regulations* is \$27.00. The cost for FY 2002 is estimated at \$1,476.00. The actual costs could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded and withdrawn.

**Oversight** assumes SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

In a similar prior proposal, SOS stated advertisement costs for the proposal would be \$4,380 per newspaper column inch for three publications of the text of the proposal, the introduction, title,

ASSUMPTION (continued)

fiscal note summary, and affidavit. The proposal would be on the ballot for the November 2001 general election.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
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**GENERAL REVENUE FUND**

Costs - Secretary of State

Newspaper Advertisements	\$0	(\$481,800)	\$0
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Costs - Department of Revenue

Personal Service (2 FTE)	\$0	\$0	(\$44,530)
Temp. Personal Service (2)	\$0	\$0	(\$18,555)
Fringe Benefits	\$0	\$0	(\$21,026)
Expense and Equipment	\$0	\$0	(\$21,164)
Programming changes	\$0	\$0	(\$150,658)
Postage	<u>\$0</u>	<u>(\$4,033)</u>	<u>\$0</u>

Total <u>Costs</u> - DOR	\$0	(\$4,033)	(\$255,933)
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Loss - General Revenue Fund

Loss of 1% collection fee on sales tax revenue on food.	\$0	\$0	(\$1,295,000)
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Revenue - General Revenue Fund

Revenue from decreased FIT deduction.	\$0	\$0	\$118,400,000
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Cost - General Revenue Fund

Transfer to Local Revenue Replacement Fund (revenue less a 2% administration fee)	<u>\$0</u>	<u>\$0</u>	<u>(\$116,032,000)</u>
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**ESTIMATED NET EFFECT ON  
GENERAL REVENUE FUND**

<u>\$0</u>	<u>(\$485,833)</u>	<u>\$817,067</u>
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**SUBJECT TO APPROPRIATION**

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<b>LOCAL REVENUE REPLACEMENT FUND</b>			
<u>Income</u> - Transfers from the General Revenue Fund	\$0	\$0	\$116,032,000
<u>Costs</u> - Distributions to the Local Political Subdivisions	<u>\$0</u>	<u>\$0</u>	<u>(\$116,032,000)</u>
<b>NET EFFECT ON LOCAL REVENUE REPLACEMENT FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

**SUBJECT TO APPROPRIATION**

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<b>POLITICAL SUBDIVISIONS</b>			
<u>Income</u> - Distributions from the Local Revenue Replacement Fund	\$0	\$0	\$116,032,000
<u>Costs</u> - Lost Revenue from sales tax exemption on food	<u>\$0</u>	<u>\$0</u>	<u>(\$128,205,000)</u>
<b>NET EFFECT ON POLITICAL SUBDIVISIONS</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(\$12,173,000)</u></b>

FISCAL IMPACT - Small Business

Small businesses who sell certain foods would be expected to be fiscally impacted to the extent that they would no longer collect and pay sales tax on these items. Small businesses who would purchase food would pay less for such items.

DESCRIPTION

Under current law, certain food types are taxable for local sales tax purposes. This bill exempts these food types from all local sales taxes imposed by political subdivisions. This portion of the

DESCRIPTION (continued)

bill will become effective on July 1 following the passage of the bill by the voters of the state.

The bill also reduces the maximum federal income tax paid deduction allowed for individuals for state income tax purposes. The maximum individual income tax deduction for federal income taxes paid will be reduced from \$5,000 for a single taxpayer and \$10,000 for married taxpayers to \$3,000 and \$6,000, respectively. This portion of the bill will become effective on January 1 following the passage of the bill by the voters of the state.

All state revenue received from the reduction of the federal income tax deduction on individuals will be deposited into an account to be known as the Local Revenue Replacement Fund. Money in this fund will be disbursed to political subdivisions in an amount necessary to replace the lost revenues of the political subdivisions as a result of the local sales tax exemption on the sales of certain food types. The fund and disbursement of the moneys will be administered by the Department of Revenue.

The bill also holds harmless deposits into the Outstanding Schools Trust Fund.

The bill contains a referendum clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue  
Office of Administration  
    Budget and Planning  
State Tax Commission  
State Treasurer's Office  
Department of Higher Education  
Department of Elementary and Secondary Education  
Office of the Secretary of State



Jeanne Jarrett, CPA  
Director  
February 12, 2001